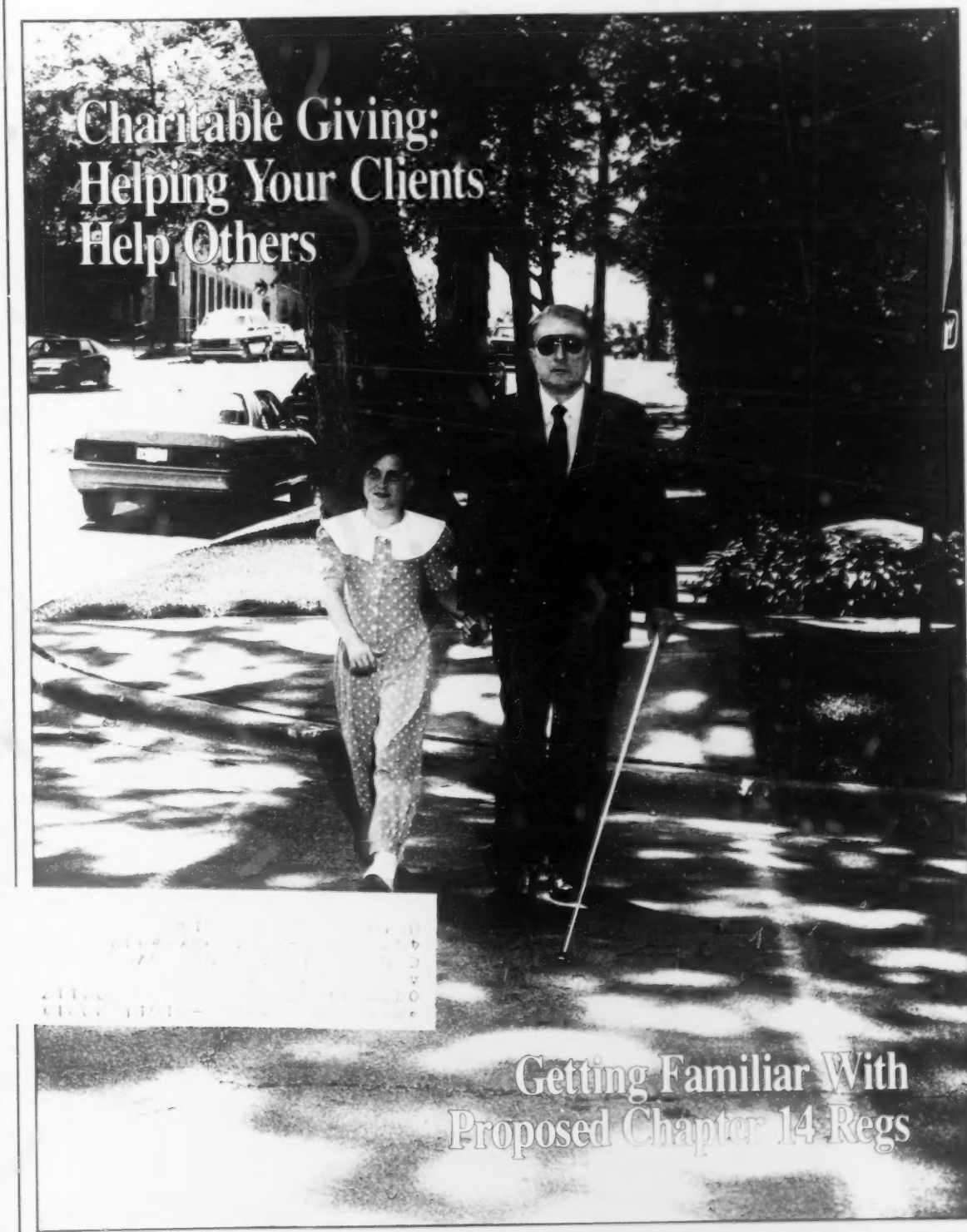
TRUSTS & ESTATES
ESTATE PLANNING & ADMINISTRATION
A Publication of Communication Channels, Inc.
AUGUST 1991



Charitable Giving: Helping Your Clients Help Others

Getting Familiar With Proposed Chapter 14 Regs

TRUSTS & ESTATES.

Volume 130, No. 8 | Estate Planning and Administration Since 1904 | AUGUST 1991

CHARITABLE GIVING

10 **Changing Advantages Of Charitable Contributions**
Awareness of the alterations of tax law and the resulting pitfalls and advantages is invaluable
Nathan Oestreich, Carol Venable, James Williamson

24 **Now May Be The Time To Donate Tangible Personal Property**
Gifts of tangible property to a charity for use-related purposes may avoid AMT adversity
Paul J. Lochray

29 **Examining The Factors That Affect Charitable Giving**
Economic, social and psychological factors must be considered when charitable giving is an option
Barry W. Johnson, Jeffrey P. Rosenfeld

38 **Analyzing The Trends Within Private Foundations**
Private foundations wield a great deal of discretion in the management and distribution of their money
Alicia L. Meckstroth

48 **Getting Familiar With Proposed Chapter 14 Regs**
An overview of the Code's reconstruction: How Chapter 14 makes up for Sec. 2036(c)
Roy M. Adams, David A. Herpe

50 **Is There New Hope For Life Insurance Trusts?**
To minimize the risk of inclusion in the estate, compliance with IRS Codes and Regulations is a must
Edward E. Milam, Kenneth J. Fowler

55 **Beneficiaries Are Satisfied When Involvement Is Generated**
While generating involvement is demanding, the rewards make the effort completely worthwhile
Russ A. Prince

COVER

Charitable giving, an option in estate planning, is becoming increasingly popular among clients who wish to "give back" to society. Photo courtesy The Hadley School For The Blind, Winnetka, IL.

DEPARTMENTS

4 Commentary
6 Trends & Developments

Commentary

Charities Blossom In A Slow Economy

Even in a down year for economic growth, people are still willing to give to charity. According to a recent report on private philanthropic giving by the AAFRC Trust for Philanthropy, contributions to the nation's non-profit organizations grew to an estimated $122.57 billion in 1990 for an increase of 5.75 percent over the previous year or 1 percent after adjusting for inflation.

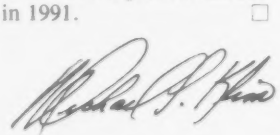
The report goes on to say (see this month's Trends & Developments for more details) that donations by individuals, foundation grants and bequests or gifts made in Wills have all shown substantial increases above the rate of inflation.

Where is the money coming from? It's coming from the same segment of the population that now comprises the fastest-growing group of potential clients for the trust and estate planner — the baby boomers.

The baby boomers have embraced charitable giving as a means of dispersing a portion of their wealth and it is therefore imperative that estate planners know how to identify these potential donors and offer them the most comprehensive advice.

This month, in two separate detailed studies, members of the IRS Statistics of Income Division analyze the factors which affect charitable giving and the demographics of the investors and distributors of tax-exempt charitable dollars to private foundations. In the first of the studies, it is noted that "top wealthholders" account for approximately 71 percent of all bequests made by U.S. decedents and that 9 percent of estate tax decedents made gifts of $1 million or more. In the second study, it is stated that "non-operating" foundations comprise some 91 percent of the foundation population and control over 90 percent of the fair market value of assets (over $103 billion in 1987).

On the technical side this month, Carol Venable, James Williamson and Nathan Oestreich of San Diego State University look at five substantial legislative developments — two from the Revenue Reconciliation Act of 1990 — which have had an affect on contributions of capital gain property. And, Paul Lochray of the College of Financial Planning discusses how gifts of tangible personal property to a qualified charity for a use-related purpose may avoid the adverse alternative minimum tax consequences associated with such gifts if the gift is made in 1991. □



TRUSTS & ESTATES.

CHARLES E. LLOYD	Publisher
MICHAEL S. KLIM	Editor/Associate Publisher
PERRIN AIKENS	Editorial Assistant
ROY M. ADAMS	Editorial Consultant
JUDITH W. McCUE	Book Editor
JEAN DIMEO	Washington Bureau
BURKE A. CHRISTENSEN CONRAD TEITELL	Contributing Editors
MARIA BENNETT	Managing Circulation Director
MARTIN E. GREENE	Production Director
SUSAN MEYER	Production Manager
PETER WARD	Marketing Director
SUSAN MARKER	Art Director
JAMIE HOOD	Promotion Director
CHRISTINE ZIMMERMAN	Associate Promotion Director

EDITORIAL ADVISORY BOARD

G. W. P. ATKINS JR.	First Wachovia Trust Services, Inc. Atlanta
BERNARD BARNETT	BDO Seidman New York City
JONATHAN G. BLATTMACHR	Milbank, Tweed, Hadley & McCloy New York City
SUSAN BRACHTL	U.S. Trust Co. of New York New York City
DAVID E. LAJOIE	Coopers & Lybrand Dallas
HOWARD M. McCUE III	Mayer, Brown & Platt Chicago
JEFFREY N. PENNELL	Emory University Law School Atlanta
J. TIMOTHY RITCHIE	The Northern Trust Co. Chicago
SIDNEY H. SCHNECK	Citibank New York City
CLARE H. SPRINGS	Dinkelspiel, Donovan & Reder San Francisco
M.L. WHITE	Mellon Bank Pittsburgh
WILLIAM D. ZABEL	Schulte Roth & Zabel New York City and Palm Beach, Fla.

SUBSCRIBER SERVICES
Fulfillment Dept.
5615 W Cermak Rd.
Cicero, IL 60650-2290
(312) 762-2193

CCi

A Publication of Communication Channels, Inc.

Trusts & Estates (ISSN-0041-3682) is published monthly (with a 13th issue in December) by Communication Channels, Inc., Jerrold France, President; Lawrence Moores, Executive Vice President; Buford Bryant, Treasurer. Editorial and advertising offices at 6255 Barfield Road, Atlanta, GA 30328. Telephone 404-256-9800. Washington office at 4425A Forbes Blvd., Lanham, Md. 20706. Telephone 301-731-0157. *Trusts & Estates* is a registered trademark of Communication Channels, Inc.

© 1991 by Communication Channels, Inc.

Second class postage paid at Atlanta, GA and additional mailing offices. Subscription rates: U.S.A., 1 year, $66; 2 years, $105; Outside U.S.A. (Surface Mail) 1 year $86, (Airmail) 1 year $136. Single copies, $9.50 *The Directory of Trust Institutions* is included in subscription; single copy $44.95; outside U.S.A., $64.95. The opinions expressed by authors and contributors to *Trusts & Estates* are not necessarily those of the editors or publisher. Articles appearing in *Trusts & Estates* may not be reproduced in whole or in part without the express permission of the publisher. Microfilm copies of *Trusts & Estates* are available from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. Postmaster: Please send form 3579 to Fulfillment Department, *Trusts & Estates*, 5615 W. Cermak Rd., Cicero, IL 60650-2290.

BPA

Examining The Factors That Affect Charitable Giving

A variety of economic, social, and psychological factors must be taken into account when determining who will give and how much

By **BARRY W. JOHNSON**
JEFFREY P. ROSENFELD
Internal Revenue Service
Washington, DC

Analysis of Federal Estate Tax Returns (Forms 706) filed for 1986 decedents shows the interplay of social and economic factors on bequest decisions. Data from 706 returns show that marital status, gender and social class are important predictors of charitable giving. These factors, coupled with individual values and beliefs, predispose a person to make a charitable bequest. Tax incentives can also affect the amount given, as well as the timing and form of such bequests. Total giving to charities in 1986 was nearly $92 billion, or about 2 percent of the Gross National Product (AAFRC, 1987: Giving USA: Estimates of Philanthropic Giving in 1986 and the Trends They Show). The majority of these gifts were given by individuals, both directly (82.2 percent) and through bequests (6.7 percent). Total bequests to charities amounted to $6.2 billion in 1986. These bequests can have a significant impact on recipient organizations.

As a group, these "top wealthholders"[1] gave $4.1 billion, and accounted for about 71 percent of all such bequests made by U.S. decedents (Giving USA, 1987). Nine percent of the estate tax decedents made gifts of $1 million or more. These large gifts totaled nearly $3 billion, or about 72 percent of the charitable bequests made by top wealthholders. The majority of the remaining decedents made bequests of less than $250,000. Even so, the sum of these "small" bequests was over $200 million. It is no wonder that organizations expend considerable fund raising effort to garner bequests. (See Exhibit 1.)

1986 Decedents

The bequest data examined in this article were gathered by the IRS's Statistics of Income Division (SOI). SOI samples estate tax returns annually in order to evaluate the effects of tax policy and to provide annual estimates of the financial characteristics of estate tax filers. Currently, an estate tax return must be filed within nine months of a decedent's death; a six month extension is available beyond that. Thus, returns for a particular year of death may be filed over a period of several years. This article presents data from returns filed in 1986-1988, focusing on 1986 as the year of death. A federal estate tax re-

EXHIBIT 1

1986 Decedents, Charitable Bequests by Size of Bequest

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of Bequest	Decedents[1]		Bequests	
	Number	Percent	Amount	Percent
Total	8,990	100.0%	$4,146,944	100.0%
Under $250,000	6,491	72.1	207,147	5.0
$250,000 Under $500,000	645	7.2	235,994	5.7
$500,000 Under $1,000,000	1,039	11.6	723,519	17.4
$1,000,000 Under $10,000,000	778	8.7	1,680,865	40.6
$10,000,000 or More	37	0.4	1,299,418	31.3

[1]Includes all U.S. estate tax decedents making charitable bequests, with net worth of $500,000 or more.

EXHIBIT 3

Charitable Bequests as a Percentage of Net Worth, By Sex and Size of Net Worth, 1986

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of Net Worth	All Decedents[1]		Male Decedents[1]		Female Decedents[1]	
	Amount	Percent	Amount	Percent	Amount	Percent
Total	$4,146,944	24.3%	$2,159,824	24.5%	$1,987,120	24.1%
$500,000 Under $1,000,000	704,496	20.1	220,774	16.3	483,722	22.5
$1,000,000 Under $2,500,000	883,421	22.0	342,501	18.9	540,920	24.6
$2,500,000 Under $5,000,000	577,015	22.6	267,651	21.2	309,365	24.0
$5,000,000 or More	1,982,012	28.5	1,328,898	30.4	653,114	25.1

[1]Includes all U.S. estate tax decedents making charitable bequests, with net worth of $500,000 or more.

turn was required for all 1986 decedents with at least $500,000 in total gross estate at the time of their death; the top tax rate was 55 percent.

There were an estimated 45,800 U.S. citizens who died in 1986 with gross estates above the $500,000 filing requirement, representing only about 2.2 percent of the U.S. decedent population.[2] These decedents had a combined gross estate of over $66 billion. Over 56 percent of them were male, most of whom were married; most of the female decedents were widowed. The average age at death for males and females was 73.8 and 79.5, respectively.

Almost 20 percent of these 1986 decedents made bequests to charitable organizations. These bequests accounted for slightly over 24 percent of their net estates. (Net estate, or net worth, is defined as total assets, including life insurance owned by the decedent and certain lifetime transfers, minus debts.)[3] The average (mean) bequest amount was $460,000. The minimum bequest value was $100 and the maximum, well over $150 million. Gender and net worth are the two most important variables for predicting the value of bequests.

Female decedents were almost twice as likely as males to make bequests to charitable organizations. Their rate of charitable giving exceeds the rate for men and also exceeds the aggregate rate for all decedents. It also illustrates that, regardless of sex, the likelihood of making a charitable bequest increases significantly as net worth rises. Almost half the women and 35 percent of the men in the highest net worth group made bequests to charities. This may be due to the ability of larger estates to adequately provide for family members and make a significant gift, or to the lower cost of charitable giving incurred at the higher tax rates. (See Exhibit 2).

While the likelihood of making a charitable bequest increases significantly with the size of net worth, regardless of sex, the data suggest that net worth does not substantially influence the relative amount given by female decedents. Women, on average, give about 24 percent of their net estates. The charitable giving of male decedents is more sensitive to net worth. Their giving, as a percentage of net estate, almost doubles, from 16 percent for those in the lowest net worth category, to 30 percent in the highest. Interestingly, while women are more likely to make a charitable bequest, and those with a net worth less than $5 million gave more than men, men in the largest net worth category gave away a larger percentage of their estates. (See Exhibit 3.)

EXHIBIT 2

Charitable Donors as a Percent of Estate Tax Decedents By Sex and Size of Net Worth, 1986

[All figures are estimates based on samples]

Size of Net Worth	All Decedents[1]		Male Decedents[1]		Female Decedents[1]	
	Number	Percent	Number	Percent	Number	Percent
Total	8,990	20.4%	3,766	15.2%	5,224	27.0%
$500,000 Under $1,000,000	5,054	18.1	1,903	12.8	3,151	24.1
1,000,000 Under $2,500,000	2,668	22.0	1,196	16.5	1,472	30.2
$2,500,000 Under $5,000,000	739	27.7	366	20.8	373	41.0
$5,000,000 or More	529	39.6	302	35.1	227	47.8

[1]Includes all U.S. estate tax decedents making charitable bequests, with net worth of $500,000 or more.

Marital Status

Married decedents of both sexes were the least likely group to make a charitable bequest; their bequests, as a percentage of net worth, were also the smallest, averaging about 14 percent for females and 19 percent for males. Widowed decedents were more than twice as likely to make charitable gifts, giving away just over 23 percent of their net estates. Single decedents were the most likely to make bequests and gave the largest percentage of their estates. It is worth noting the difference in the bequest behaviors of separated or divorced male and female decedents. The amount given by males in that group resembles that of their married counterparts, while the amount bequeathed by separated or divorced females parallels the behavior of widows.

The data indicate that a greater percentage of women make these bequests. The large percentage of widowed women can be explained by the fact that married women often outlive their husbands. The charitable giving of widows often represents the bequest desires of both spouses. They choose to make their charitable gifts after the death of the second spouse, having first pro-

vided for dependents and taken full advantage of the unlimited marital deduction. (See Exhibit 4.)

Today's cohort of wealthy women age 65 and over tend to be very traditional and, as a result, may be more fiscally conservative (Odendahl, 1987). They tend to allow financial advisors to have a large role in their money management (Odendahl, 1987). They are also more likely to make lifetime gifts, as well as charitable bequests, because very wealthy women have traditionally been more involved with philanthropic activities than either men or their less wealthy counterparts.

The above observations seem consistent with the findings of other researchers (see, for example, Joulfaian, 1990, and Boskin, 1976). While Boskin found that sex was relatively unimportant, he notes that marital status, particularly the difference between married and unmarried decedents, was statistically significant. A surviving spouse and dependents take precedence over charitable bequests, particularly among younger decedents.

The size of charitable bequests, relative to estate size, increases with the age of the decedent. As potential heirs age and develop their own fortunes, benefactors are freer to substitute charitable for non-charitable beneficiaries. The 1986 decedents in our sample who were under 60 years of age gave almost 14 percent of their net estate to charity. Those in their 70s gave nearly 60 percent more than those in their 60s. Decedents in their 80s gave about 5 percent more than those 10 years their junior. Those in their 90s gave an additional 7 percent over the octogenarians. The relationship between age and giving, as with that of sex and giving, must be interpreted cautiously, however. The potential collinearity of these variables with marital status blurs the separate influences of these factors on philanthropic decisions. (See Exhibit 5.)

For analytical purposes, bequests to recipient organizations were placed into one of the following categories: arts and humanities; religious; educational, medical or scientific; social welfare; private foundations; or other. In 1986, foundations received almost $1,228,233, including 63 percent of the largest gifts (those of $10 million or more), while organizations involved with education or medical and scientific research, usually private colleges and universities, were the favored beneficiaries of estates making smaller contributions. Religious organizations received bequests from the greatest number of decedents, but ranked fourth in the amount received.

Approximately 42 percent of bequests from male decedents went to private foundations.[4] Educational, medical or scientific organizations were their second most frequent recipients. Forty percent of the bequests made by female decedents went to educational organizations. They also gave more to religious organizations than men. Foundations ranked third on the list of charitable beneficiaries. (See Figure 1.)

The decision to make a charitable bequest is shaped by economic, social, and psychological factors. Boskin (1976), writing on motives for charitable giving, identifies the following economic factors: savings and consumption habits, lifetime gifts, lifetime contributions, and non-charitable bequests. The tax treatment of contributions affects the relationship of these factors. Along with these economic considerations are social factors which impact on charitable giving. The testamentary behavior of

EXHIBIT 4

Donors As a Percentage of All Estate Tax Decedents, Gifts As A Percentage of Net Worth, By Sex and Marital Status, 1986

	All Decedents[1]		Male Decedents[1]		Female Decedents[1]	
Marital Status:	% Donors	% Given	% Donors	% Given	% Donors	% Given
Total	20.4%	24.3%	15.2%	24.5%	27.0%	24.1%
Married	9.6	18.1	9.2	19.1	11.4	13.8
Widowed	28.3	24.0	26.9	25.8	29.0	23.3
Single	42.7	43.7	32.2	46.0	56.0	40.6
Divorced/Separated	18.5	22.0	15.8	16.2	22.4	28.6

[1]Includes all U.S. estate tax decedents making charitable bequests, with net worth of $500,000 or more.

EXHIBIT 5

Number of Benefactors, Net Worth, Charitable Bequests and Bequests As A Percentage of Net Worth, By Age At Death

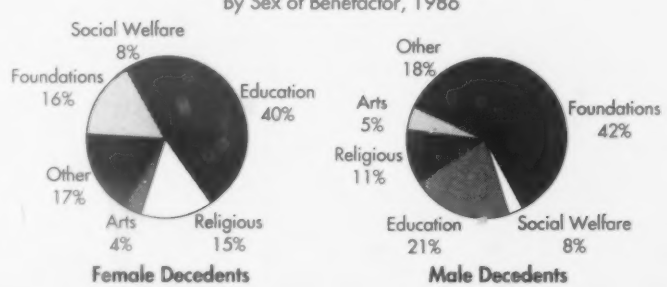
[All figures are estimates based on samples—money amounts are in thousands of dollars]

Age At Death	Number[1]	Net Worth	Bequest	Percent
Total	8,990	$17,033,439	$4,146,944	24.3%
Under 50	64	99,650	13,627	13.7
50 Under 60	185	399,368	53,855	13.5
60 Under 70	701	1,139,199	171,688	15.1
70 Under 80	2,007	4,545,496	1,097,118	24.1
80 Under 90	3,820	7,013,895	1,772,626	25.3
90 And Older	2,212	3,835,830	1,038,030	27.1

[1]Includes all U.S. estate tax decedents making charitable bequests, with net worth of $500,000 or more.

FIGURE 1

Beneficiaries of Charitable Bequests
By Sex of Benefactor, 1986



When There's help, there's hope.

leukemia
society of america

Each hour of the day 8 people in America will learn they have leukemia or a related disease. Every week there are 1,500 new cases. 45,500 will die of these diseases during this year. That's one death every 12 minutes.

The Leukemia Society of America is dedicated to finding the causes of and cures for leukemia and its family of diseases, to assisting patients and their families, and to educating the medical profession and general public.

The Society has a tremendous story to tell of worldwide research, of expanding patient services and, most important, of rising survival rates for children and adults. Today, treatment progress is reported more frequently, more leukemia patients are living longer, and many medical experts proclaim that more and more cures are possible.

The Society supports studies that make a difference in the way people with leukemia and lymphoma live. Today patients can look to a brighter future and the possibility of cures thanks to advances made through research.

To obtain a one page plastic coated **Summary of Charitable Giving Rules** designed for use by professionals and a copy of the Society's **Charitable Giving** brochure, please contact the office of Planned Giving.

Leukemia Society of America, Inc.,
733 Third Avenue, New York, N.Y. 10017.
(212) 573-8484

GIVE THE GIFT OF LIFE

wealthy people is shaped by social norms and values (Schervish, 1986), community standards and peer pressures, as when, for example, charitable giving becomes a way of "Keeping Up With The Joneses" (Rosenfeld, 1991).

There is also a psychological component to charitable giving. Survey data show that many wealthy benefactors give out of desire to share their wealth with others who are less fortunate. Gifts are made to organizations involved with issues of personal interest or concern to the donor. Values instilled through religious involvement seem to play an important role for these donors. Consistent with this theme is the finding that people who make charitable bequests frequently believe in the efficacy of individual effort, rather than government, to address social problems (Boris, 1987).

On the other hand, bequests to colleges, museums, or hospitals are often motivated by what psychologist Eric Erikson has called "generativity": the desire to build something which will perpetuate the work or memory of the donor, or the donor's family (Erikson, 1950; 1982).[5] Charitable giving can also be less than altruistic, as when motivated by guilt. There are also pragmatic motives for charitable giving. These include bequests to organizations (such as colleges or universities) from which a business or a family will benefit (Schervish, 1987). Whatever the motive, the decision to make a charitable bequest typically occurs late in life for most wealthy individuals. Sociological research confirms that top wealthholders put their energies into acquiring and accumulating wealth until relatively late in life. Only after they feel financially secure — often at about the time they contemplate retirement — do they become more involved with the social, political and philanthropic causes which will eventually motivate their charitable bequests (Rosenfeld, 1980, 1991).

Foundations

Foundations are typically formed by white, Protestant males over the age of 50 who are married and have children. Most were set up in the 1950s and 60s, although some continue to be formed today, primarily through bequests. The Survey on Foundation Formation, Growth and Termination found that the primary reason for establishing a foundation was to have a means of giving systematically in an area philosophically important to the founder (Odendahl & Boris, 1986). It is also a way of maintaining control over the uses of their contributions. There are a variety of other motives for setting up a foundation. Among these are concern for the welfare of others, feelings of social responsibility, and tax considerations.

Foundation formation may be particularly sensitive to changes in tax rates (Boskin, 1976). The decline in foundation formation following the 1969 Tax Reform Act, which eliminated some of the tax advantages afforded gifts to foundations, may reflect this economic fact. Ever since 1969, wealthholders have established fewer foundations, but continue making bequests to existing foundations. The costs involved in setting up a foundation, both in terms of personal involvement and capital, in the absence of tax advantages, has encouraged wealthholders to make bequests to existing foundations while finding other ways to achieve their lifetime philanthropic goals.

The Charitable Deduction

There has been much debate over the effectiveness of the charitable deduction allowed for both the federal income and estate tax. Economists argue that a significant amount of charitable behavior depends on these deductions. According to this line of reasoning, the tax and the deduction have two opposing effects. First, the tax reduces the estate available for division between potential heirs and charities. This is known as the wealth effect and should have a negative effect on gifts to charity. Second, the deduction reduces the price of giving to charity relative to giving to a non-charity which should encourage charitable giving. This is called the price effect because the price of each additional dollar given to charity, relative to a non-charity, is only $1 — the marginal tax rate (the amount of tax savings attributable to the deduction) (Boskin, 1976). Thus, in the highest tax bracket, the cost of a dollar given to charity, rather than a non-charity, is only $.45 ($1 - .55). The progressive structure of the tax rates suggests that both the wealth and price effects increase with the size of the taxable estate. The magnitude of these effects determines the effect of changes in the tax system on charitable giving (Boskin).

Survey research (Independent Sector, 1990) indicates that tax consequences are not a major consideration when people decide to make charitable gifts. Ninety percent of respondents surveyed in 1986 said they would not change their charitable giving patterns in 1987 in re-

sponse to the limits placed on both the valuation of assets given to charity and on the relative size of the charitable deduction as a part of the Tax Reform Act of 1986. Only 2 percent of the respondents in the sample attributed their charitable giving to tax incentives, while 37 percent said they gave because of strong feelings toward a particular charity.

A series of focus groups with estate-planning professionals confirm that taxes affect the level and timing of a gift, but not the decision to make a gift. In 1986 and 1989, the Statistics of Income Division of the IRS conducted focus groups with estate planning professionals to discuss a wide range of issues associated with charitable giving. Estate planners, accountants, and bank trust officers who work with affluent clients say that these clients come to them with pre-existing goals concerning charitable bequests. They rarely suggest charitable giving as a tax savings option. This finding is consistent with the survey research mentioned earlier, and helps put taxes, as incentives or constraints on charitable giving, in perspective. They affect timing and level of charitable giving. By examining price elasticities, it is possible to measure this effect.

Empirical Studies

In order to examine the effects of taxes on charitable bequests, a measure of the change in giving associated with a change in the tax rate is needed. This measure is known as the price elasticity of charitable giving. An elasticity greater than one (in absolute terms) means that a change in the tax rate stimulates a relatively larger change in the amount bequeathed. In that case, the tax is said to be an efficient means of stimulating behavior. If, on the other hand, the elasticity is less than one, it can be argued that the deduction is inefficient, as the loss in revenue is not made up by gifts to charity; in this case, charities would fare better if the deduction were abolished, and instead, the government were to distribute tax revenue directly to them.

Several economists have used both federal estate tax returns and state probate records to quantify the effects of taxes on giving (for a more complete discussion see Joulfaian, 1990, or Clotfelter, 1985). Two separate studies using 1957-59, 1969, and 1976 federal estate tax data showed a price elasticity of charitable bequests greater than one for small and moderate size estates (Boskin, 1976 & Clotfelter, 1985). Elasticities very close to one were calculated for the very largest estates, leading to the conclusion that the tax deduction was efficient for all but the very wealthy. Both concluded that eliminating the deduction would sharply curtail charitable bequests and increase bequests to heirs. A reduction in tax rates would have a similar, although less severe, effect.

Joulfaian (1990) obtained similar results using 1986 data. His research is significant because it suggests that the scope of charitable giving is influenced by tax incentives. Joulfaian found that the number of different charities included in the benefactor's estate plan increased as the marginal tax rate faced by the estate rose. He also described differential giving (i.e. to the arts, to education, to foundations, etc.) based on marginal tax rates. Between 1976 and 1986 the value of charitable bequests (as described in the following section) declined significantly. Joulfaian's study suggests that the effects of

You didn't spend years in law school to become a paper shuffler.

Schwab offers estate executors help with administrative details. When you're juggling the responsibilities of an estate executor, your expertise shouldn't be wasted on completing forms or preparing routine correspondence. That's why you'll welcome Schwab's time-saving Estate Distribution Services.

At Schwab, you can distribute estate securities efficiently and inexpensively. Open an Estate Account at Schwab and you'll get informed, professional assistance with the *speedy liquidation of securities, transfers of title,* and the *timely distribution of assets.*

You'll also save money for estate beneficiaries. It costs nothing to open an Estate Account with Schwab, and there's a nominal fee to process securities held in certificate form. And with Schwab's low commission you'll save on most trades.

For complete information about Schwab's Estate Distribution Services, call:

1-800-742-6262 Ext. 30

Charles Schwab

Schwab Estate Distribution Services

Manage estate investments more efficiently and inexpensively with an estate account at Schwab.

Member SIPC
© 1990 Charles Schwab & Co., Inc.

this decline were distributed unevenly across charitable sectors.

Charitable Giving

Tax reforms in 1976 and 1982 have significantly changed the composition of the estate tax population. The filing requirement in 1976 was $60,000 and the top tax rate was 77 percent. As a result of reforms, the maximum rate was lowered to 55 percent and the filing requirement raised to $500,000 by 1986, and ultimately to $600,000 for decedents dying in 1987 and later. The tax law was also modified in several other ways, the most significant being the creation of the unlimited marital deduction, replacing the previous deduction, which was limited to half the value of the decedent's gross estate. It was predicted that these changes would have a significant impact on charitable bequests.

Decedents dying in 1976 and 1986 with gross estates of at least $500,000* in constant 1986 dollars.[1] The number and their aggregate net worth increased about 45 percent over the period. The percentage of filers making a charitable bequest has remained fairly stable, declining slightly from just over 22 percent of all decedents in 1976 to nearly 20 percent in 1986. The value of charitable bequests, relative to the size of net worth, however, has declined significantly. In 1976, over 10 percent of aggregate net worth was bequeathed to charities; that percentage fell to just 6.3 percent in 1986. The actual amount given decreased about 10 percent in real terms over the period. (See Exhibit 6.)

It is certainly an oversimplification to attempt to describe the charitable giving behavior of U.S. decedents solely in terms of the effects of taxes. The fact that only 23 percent of all decedents whose estates incurred tax liabilities made charitable bequests says that taxation is, at best, an imperfect inducement for philanthropic activity. The above data, however, show that their influence can be significant.

Conclusion

The decision to include philanthropic bequests among the beneficiaries of an estate is dependent on many factors. Specifically, a variety of psychological and social influences seem to play a large role. The presence of a surviving spouse and other dependents compete directly with charities as beneficiaries. This is demonstrated by the importance of marital status and, to a lesser degree, age, as a determinant of charitable giving. Decedents with higher net worth are better able to meet these competing needs. The sex of the decedent plays a role as well, particularly in today's cohort of very wealthy older women, where social changes brought about by the women's movement have been less pervasive (Odendahl, 1987). Tax policy also plays a significant role in determining the timing and form of gifts and affects the amount given. Even here, though, net worth, obligations, potential heirs, and the liquidity of the estate are key factors as well.

A number of researchers are currently studying philanthropic behavior by tracking individuals over periods of time, rather than using traditional cross sectional data (see Auten and Randolph, 1990 and Steinberg, 1990). The assumption underlying this approach is that an individual's charitable giving represents a structured, long term goal. Likewise, charitable bequests can best be understood as expressions of giving which had been socially and economically structured earlier in the decedent's life. Future research on charitable giving will make more systematic connections between bequests at the end of a lifetime, and charitable giving throughout life. □

EXHIBIT 6

Decedents With Estates Valued at $500,000[1] or More 1976 and 1986 Years of Death*

[All figures are estimates based on samples—money amounts are in thousands of dollars[1]]

Item	1976 YOD[1,2]	1986 YOD
Total Number of Filers	31,772	45,800
Aggregate Net Worth	$45,377,360	$66,018,791
Filers Making Charitable Bequests	7,020	9,114
Percent Filers Making Bequests	22.1%	19.9%
Aggregate Charitable Bequests	$4,613,320	$4,152,733
Bequests as a Percent of Net Worth	10.2%	6.3%

[1]Constant 1986 dollars.
[2]1976 year of death is represented by returns filed in 1977.
*Table includes decedents with net worth less than $500,000

The authors are grateful to Daniel Skelly for his help and support. Thanks are also due to Michael Alexander, Marvin Schwartz and Margaret Riley for reviewing and editing drafts of this paper and to Nat Shaifer for his work on the tables. Special thanks to David Joulfaian for his technical advice and comments.

FOOTNOTES

1. The data presented here are for 1986 decedents who were required to file a federal estate tax return because their gross estate at the time of death was at least $500,000. Additionally, returns for decedents with net estates valued at less than $500,000 have been removed from the sample for this analysis. The charitable bequests examined here are those intended as a deduction from gross estate as reported on Schedule O of Form 706. When there is no estate tax due, as when the unlimited marital deduction is used, small charitable bequests are often omitted from the form, or are reported with the other beneficiary data on page 2 of the return; these will be absent from our estimates.

2. Based on the number of deaths of U.S. resi-

ESTATE-VAL
SECURITY VALUATIONS IN MINUTES ON YOUR MICROCOMPUTER

Daily Prices for:
. 9,000 Domestic Equities
. 26,000 Corporate and Government Bonds
. 2 Million Municipal Securities

ESTATE-VAL on your microcomputer will cut your reporting costs by 50% if you are currently using an on-line timesharing computer service. If you are mailing lists of securities to a pricing service, the savings will be even more and the turnaround time will go from weeks to minutes. Our service eliminates costly delays and increases trust profits.

EVP
Estate Valuations & Pricing Systems, Inc.

1640 5th Street, First Floor
Santa Monica, California 90401
FAX (213)394-4909 (213)393-1741

dents in 1986 as reported by the National Center for Health Statistics.

3. Researchers have used various measures of wealth to study charitable giving. These include: total gross estate (Bartold & Plotnick), economic estate (total gross estate minus estate expenses and taxable lifetime transfers); adjusted economic estate (economic estate less the amount of tax that would have been owed in the absence of a charitable bequest) (Boskin), and adjusted disposable estate (adjusted economic estate plus taxable lifetime transfers) (Clotfelter, Joulfaian). Economic estate most closely approximates the actual estate available for a charitable bequest. However, the expenses related to a decedent's death and the administration of the estate are often reported on the decedent's final income tax return rather than on the Form 706. This may be particularly true when an estate is non-taxable, as when there is a large bequest to the surviving spouse or charity. Therefore, although net worth overstates the amount of estate available for distribution, it has less potential for introducing a bias due to reporting practices.

4. Bequests to foundations are ultimately used to support other organizations. For example, in 1986, a foundation gave over 2.2 billion dollars to the following types of organizations (expressed as a percentage of their total giving): welfare - 26.9 percent, education - 21.9 percent, health - 20.5 percent, cultural activities - 14.7 percent, social science - 8.8 percent, science - 6.4 percent, and religion - 1.3 percent (Source: The Foundation Grants Index, 18th Edition, Foundation Center, 1989).

5. Erikson says that generativity is an important developmental task during adulthood.

6. All dollar amounts were converted to constant 1986 dollars using the implicit price deflator for gross national product, *Economic Report of the President*, U.S. Government Printing Office, Washington, DC, 1990. Only returns with $500,000 or more of gross estate in 1986 dollars were included.

7. 1976 year of death data are represented by data collected during tax year 1977, *Statistics of Income — 1976, Estate Tax Returns*, U.S. Government Printing Office, Washington, DC, 1979.

SELECTED REFERENCES

AARCF Trust For Philanthropy. (1987). *Special Report of Giving USA: An Analysis of Charitable Contributions by Upper-Income Households for 1986 and 1987*. New York, NY.

AARCF Trust For Philanthropy. (1987). *Giving USA: Estimates of Philanthropic Giving in 1986 and the Trends They Show*. New York, NY. Clancey, L.A.

AARCF Trust For Philanthropy. (1989). *Giving USA: The Annual Report on Philanthropy for the Year 1988*. New York, NY. Weber, N. (ed).

Auten, G.E., & Randolph, W.C. (1990, December). *Do Taxes Affect Giving?: Recent Studies that Challenge the Consensus*. Paper presented at the Allied Social Science Annual meetings, Washington, DC.

Barthold, T., & Plotnick, R. (1984). Estate Taxation and Other Determinants of Charitable Bequests. *National Tax Journal*, 37(2), 225-237.

Boris, E.T. (1987) The Values of the Wealthy: Philanthropic Attitudes as a Reflection of Political Philosophy in American Culture. *1987 Spring Research Forum of the Independent Sector, Working Papers*. (pp. 237-248). New York, NY: United Way Institute.

Boskin, M.J. (1976). Estate Taxation and Charitable Bequests. *Journal of Public Economics*, 5, 27-56.

Clotfelter, C.T. (1985). *Federal Tax Policy and Charitable Giving*. University of Chicago Press.

Clotfelter, C.T. & Steuerle, C.E. (1981). Charitable Contributions. In H. J. Aaron & J.A. Pechman (Eds.). How Taxes Affect Economic Behavior (pp. 403-446). Washington, DC: Brookings Institution.

Erikson, E. (1950). *Childhood and Society*. New York: W.W. Norton. For an updated version, see Erikson, E. (1982). *The Life Cycle Complete: A Review*. New York: W.W. Norton.

Independent Sector. (1990). *Giving and Volunteering in the United States*. Washington, DC.

Johnson, B.W. (1990, Spring). Estate Tax Returns, 1986-1988. *Statistics of Income Bulletin*, 9(4), 27-61. Washington, DC: U.S. Government Printing Office.

Joulfaian, D. (1990, December). *Charitable Bequests and Estate Taxes*. Paper presented at the Allied Social Science Annual meetings, Washington, DC.

Odendahl, T. & Boris, E. (1986, March). Foundation Formation, Growth and Termination: A Report on the Charitable Attitudes of the Wealthy and a Survey of Foundations. *1986 Spring Research Forum of the Independent Sector, Working Papers*, (pp. 41-52). New York, NY: United Way Institute.

Odendahl, T.J. (1987, March). Lady Bountiful and Her Good Works? *1987 Spring Research Forum of the Independent Sector, Working Sector*, (pp. 436-450). New York, NY: United Way Institute.

Odendahl, T.J. (1988, March). The Political Economy of Charitable Giving by Elites in the United States. *1988 Spring Research Forum of the Independent Sector, Working Sector*, (pp. 656-677). San Francisco, CA: United Way Institute.

Rosenfeld, J. P. (1980, March). Benevolent Disinheritance. *Psychology Today*, (pp. 38-40 et seq).

Rosenfeld, J.P. (1991, April). Old Age, New Beneficiaries. *American College of Trust and Estate Counsel Notes*, (pp. 8-11).

Schervish, P.G., Herman, A., & Rhenisch, L. (1986, March). Toward a Central Theory of the Philanthropic Activities of the Wealthy. *1986 Spring Research Forum of the Independent Sector, Working Sector*, (pp. 219-227). New York, NY: United Way Institute.

Schervish, P.G., & Herman, A. (1987, January) Varieties of Philanthropic Logic Among the Wealthy. *1987 Spring Research Forum of the Independent Sector, Working Sector*, (pp. 215-235) New York, NY: United Way Institute.

Schervish, P.G. (1989, March). Wealth and the Spiritual Secret of Money. *1989 Spring Research Forum of the Independent Sector, Working Sector*, (pp. 509-522). Chicago, IL: United Way Institute.

Steinberg, R. (1990, March). Taxes and Giving: New Findings. *1989 Spring Research Forum of the Independent Sector, Working Sector*, (pp. 487-500). Boston, MA: United Way Institute.

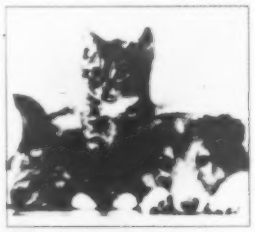
Steuerle, E. (1985). The Charitable Giving Patterns of the Wealthy. Unpublished manuscript.

Barry W. Johnson is an economist with the Statistics of Income Division of the Internal Revenue Service, where he studies the characteristics of estate tax filers and the distribution of wealth in the U.S. His most recent studies, "Estate Tax Returns, 1986-1988" and "Estimates of Personal Wealth, 1986," appear in the Spring 1990 issue of the *SOI Bulletin*.

Jeffrey P. Rosenfeld consulted with the IRS on the Intergenerational Wealth Study. His most recent study of intergenerational transfers, entitled "Old Age, New Beneficiaries," appears in the April 1991 issue of *ACTEC Notes*, which is published by the American College of Trust and Estate Council.

Because People Care About Animals...

Friends of Animals has been able to reduce animal suffering nationwide for over 30 years.



Animals Animals/Leonard Lee Rue III

Our programs and services for dogs and cats, wildlife and marine mammals need the continued support of caring people.

For information about a bequest, trust, or gift of property, please call or write:
Friends of Animals, Inc.
1841 Broadway #212
New York, NY 10023
212-247-8120

WE TRACK THEM DOWN —OR YOU DON'T PAY

When beneficiaries, distributees, and insureds have moved and left no forwarding address, we track them down and find them! Since 1967, we have been locating people for trusts, estates, law firms, government agencies and the insurance industry.

Our fees are reasonable. If the last known address is three years old or less our charge is $195.00. For each additional year the fee increases by $60.00. There are no up-front costs, no hidden fees or disbursements and we bill you after the person has been located.

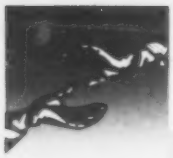
FOR MORE INFORMATION, OR TO START A TRACE TODAY CALL

1-800-663-6144 Toll Free

(ALASKA & HAWAII 1-800-443-6144)

9 a.m.–7:30 p.m. EST 6 a.m.–4:30 p.m. PST Est. in 1967 ©

GLOBAL TRACING SERVICES INC.



Analyzing the Trends Within Private Foundations

Private foundations possess a great deal of latitude in the manner which they distribute and manage their money

By **ALICIA L. MECKSTROTH**
Internal Revenue Service
Washington, DC

Based on an examination of financial data and legislative and economic forces from 1974-87, this analysis discusses trends within the area of private foundations. Of particular interest are the changes following the passage of the Economic Recovery Tax Act of 1981 (ERTA). ERTA changed the way that foundations calculate the required charitable payout amount. A foundation typically invests its endowment in order to realize a rate of return that will help to support the payout requirement and often enable the foundation to exist permanently. Although foundations distributed fewer charitable dollars in the years immediately following 1981, by 1987 charitable distributions had increased significantly. Since ERTA, the largest foundations, after realizing the greatest gains in the value of their endowments, have also increased charitable distributions at the greatest rate.

Overview

In 1987 there were approximately 36,000 private foundations in the United States representing approximately 10 percent of all tax-exempt non-profit organizations recognized under Sec. 501(c)(3) of the IRC. Of these organizations foundations held approximately 15 percent of assets. Collectively they distributed over $8 billion in 1987 (current dollars), mainly in the form of grants to individuals and other non-profit groups to support areas such as research, education, community needs, and cultural programs.

In 1987, there were approximately 32,700 "non-operating" foundations. This is an analysis of such "non-operating" private foundations, as opposed to "operating" private foundations. Non-operating foundations comprise approximately 91 percent of the foundation population and control over 90 percent of the fair market value of assets.[1] In 1987, these non-operating foundations held $103.2 billion in fair market value of assets[2] and distributed $7.4 billion to charitable purposes (current dollars). Interestingly, less than .5 percent of all foundations with fair market value of assets equal to or greater than $100 million held 52 percent of total assets. The smaller foundations, including those with less than $1 million in assets, accounted for 80 percent of the total number but held only 5 percent of the total assets.

From 1974 to 1987 charitable distributions increased by 45 percent. Since 1979, the first year for which fair market value data were available, assets increased by 63 percent. Most of this growth was realized from 1982-87, when foundation assets grew 56 percent, a large increase in comparison to the 22 percent growth rate in the GNP. Likewise, charitable distributions increased by 38 percent from 1982-87. This significant growth in the foundation sector is in contrast to the erosion of real asset value sustained by foundations in the decade leading up to ERTA, a 31.0 percent decline from 1972-81.[3] (All dollar amounts, rates, and percent changes throughout the text, unless otherwise indicated, are adjusted using 1982 constant dollar figures.)[4]

Economic Analysis

Private foundations represent a unique entity within the American market economy. The economics of foundation behavior distinguishes foundations from profit-making firms and other non-profit organizations. Foun-

dations possess a great deal of latitude in the manner in which they distribute and manage their money. Unlike profit-making organizations, they do not always face the same incentives for efficiency that exist in a totally competitive market environment.

Like for-profit organizations, foundations devote a considerable amount of attention to investment management. This is especially true for larger foundations, which tend to operate with the goal of a permanent existence attainable through capital appreciation of the endowment. These groups, unlike the smaller foundations, possess the resources necessary to devote to skillful investment and risk management. Foundations also have an incentive to maximize return on investment: they must realize a rate of total return equal to 5 percent plus the rate of inflation in order to successfully meet the payout requirement and avoid an erosion of the endowment. Although unlike for-profit groups they do not distribute dividends or income, they are indirectly accountable to a strong donor desire to perpetuate the endowment of the foundation.

Foundations, also unlike for-profit groups, typically do not compete for consumers. On the contrary, consumers (i.e., grant-seekers) usually compete for foundation dollars. An exception to this occurs when several foundations compete to fund a high visibility project. Although foundations do not actively compete in the market, they can act as a constraining force on the non-profit organizations that they fund. Non-profit groups must often compete for foundation dollars. This competition gives these groups an incentive to operate more effectively and efficiently.

Interestingly, from 1982-87, the number of all foundations increased by 26 percent. This compares to a 6 percent increase from 1974-82. This difference more than likely results from a combination of factors such as the recognition of social need in light of domestic budget cuts during the 1980s, changes in tax-deductibility benefits to donors, the capital gains tax rate, and ERTA.

Payout Requirements

By granting tax-exemption to private foundations, policy-makers intend that foundations distribute more dollars to society than the cost of the foregone tax revenue, therefore replacing government funding of certain societal needs. Charitable activity by benevolent organizations similar to present-day foundations began in the mid-to-late 19th century. The federal government granted tax-exempt status to these organizations in 1913. Although the tax benefits to establish a private foundation are not as great as donations to other non-profit organizations, a foundation provides a tax-effective vehicle by which a donor can publicly achieve altruistic goals and impact social policy and programs. Technically, when a foundation originates, the donor receives an immediate tax deduction for the entire amount used to establish the foundation. Although the donation grows as a charitable endowment for the future, the foundation gives only a percentage of the tax-deductible amount to charitable causes each year. Due to the this reason and the power held by foundations, legislative changes since the early 1900s have involved the regulation of foundation activities. Debates have focused on ideas such as limiting the existence of a foundation, eliminating abusive activities, and regulating the amount distributed for charitable purposes.

With the passage of the Tax Reform

You're looking at the difference between our pricing service ... and theirs.

It's called a responsive customer support team.

At Muller Data, our customers tell us we have the *"most professional"* service in the industry. They say we're friendly and helpful, try harder and do things right the first time.

ANSWERS, FAST

Our records tell us we answer more than 80 percent of your questions while you're still on the phone. So instead of promises to "get back to you," we give you answers and solutions – on the spot. When we do have to call you back, we give you a time, and treat it like it's a major commitment. Because to us, it is.

ACCURATE DATA

Of course, we start with accurate, comprehensive data for more than 750,000 issues, including listed and OTC equities, commodity and financial futures, CMOs, MBSs and UITs – *plus* the complete universe of more than *one million* municipal bonds, corporate fixed-income securities, government instruments, and 80,000 Canadian and overseas equities and bonds.

CAN WE SHOW YOU?

We'd like to show you just how accurate, timely and responsive a securities pricing service can be. For more information, write Muller Data Corporation, 90 Fifth Avenue, New York, NY 10011, or call: 1-800-U-S-MULLER.

Accurate, on-time end-of-day pricing services.

MULLER DATA CORPORATION

A THOMPSON FINANCIAL INFORMATION COMPANY

MAKE A DIFFERENCE!

Your legacy may mean the gift of life for someone with a neuromuscular disease.

It's the gift the Muscular Dystrophy Association is striving to bring to the more than one million people in need of our extensive programs of patient services and worldwide research.

Support this vital effort through a gift or a bequest.

Please call or write:

MDA®

Muscular Dystrophy Association
Office of Planned Giving
3561 East Sunrise Drive
Tucson, AZ 85718
(602) 529-2000

Jerry Lewis, National Chairman

Act of 1969 (TRA69), Congress instituted the most significant package of regulations affecting foundations. Along with an excise tax on net investment income and a system of penalty taxes on certain abusive activities, TRA69 included the first charitable payout requirement for foundations. It was established in order to prevent the accumulation of tax-exempt assets without a corresponding distribution for charitable purposes. This legislation required that foundations distribute each year an amount equal to the greater of either current "adjusted net income" or a fixed percentage, currently 5 percent, of the average fair market value of net investment assets. The required amount, the "distributable amount," could, and still can be distributed by the end of the following tax return year. The adjusted net income amount basically represents realized income on investments, excluding long-term capital gains. By comparison, the percentage of net investment assets encompasses both realized and unrealized gains in the endowment. Charitable dollars dispersed in order to satisfy this requirement are called "qualifying distributions."

The charitable payout requirement from TRA69 tended to restrict the financial independence of foundations and allowed for relatively little financial flexibility over time. Although the Act allowed foundations to legally distribute the required amount by the end of the following tax year, it indirectly encouraged relatively conservative investment policies in terms of the portfolio mix and level of risk. In order to maintain the size of its endowment, a foundation typically needed to yield an annual rate of return equal to 6 percent (the fixed percentage of assets used in the payout calculation at that time) plus the rate of inflation. This often proved difficult for many foundations, especially given the high inflation rates during the 1970s.

The most significant legislative change, however, came with the passage of ERTA. This change altered the method by which foundations computed the charitable payout amount (the distributable amount). It eliminated the use of adjusted net income and used the criterion based on 5 percent of net investment assets to compute the required amount. Policy-makers hoped that ERTA would increase the long-run amount of foundation charitable distributions by providing foundations with relief from the high inflation rates of the time and by allowing them a greater opportunity to maintain, or even increase the value of their endowments, thus increasing their giving power. The larger foundations especially took advantage of the changes enacted under ERTA.

The changes implemented under ERTA allowed foundations more investment flexibility in terms of type of assets and risk. Since the measurement based on assets, rather than income, encompasses both realized and unrealized changes in the value of the endowment, it better measures the entire endowment. Previously, the calculation based on income measured only the realized changes. Prior to ERTA, those foundations earning high adjusted net income in relation to the 5 percent of assets had higher distributable amounts than if the unrealized changes in their endowment had also been used in the final computation of the payout requirement.

This was particularly true for the years immediately preceding ERTA, when inflation rates were relatively high. During this inflationary period, many foundations that based their payout amount on income experienced an erosion of their endowment over time. ERTA seemed to lead to a more favorable investment environment, particularly for the smaller foundations. Smaller foundations tend to hold a greater proportion of fixed income yield investments that earn proportionately high realized income.[5] These investments resulted in relatively high distributable amounts for the smaller foundations prior to ERTA. However, the data indicate that the larger foundations, rather than the smaller, tended to take advantage of the change by distributing proportionately less after 1981 and then, re-investing more. The smaller foundations did not tend to significantly re-adjust their investing and distributing patterns.

In effect, the change ultimately lowered the total required payout amount in the short-run. In 1982 and 1983, respectively 75 and 71 percent of foundations had lower required payout amounts than would have been the case under the law prior to ERTA. Of these foundations, in 1982 and 1983, respectively 46 and 45 percent of foundations, especially the larger ones, reacted to the change by distributing less than would have been required under the law prior to ERTA. Ultimately, the new law has helped foundations to maintain and even increase the value of their endowments, thereby increasing both required

EXHIBIT 1

Private Nonoperating Foundation Payout Rates, Selected Years, 1974-1987

Size of fair market value of total assets	Median payout rates					
	1974	1982	1983	1985	1986	1987
	(1)	(2)	(3)	(4)	(5)	(6)
Total	8.39%	9.69%	8.23%	7.44%	6.87%	7.03%
Small foundations						
$1 under $1,000,000, total	8.72	9.98	8.66	8.03	7.42	7.52
$1 under $100,000	10.94	10.67	9.76	8.30	10.23	9.63
$100,000 under $1,000,000	7.25	9.03	8.03	7.61	6.49	6.66
Medium foundations						
$1,000,000 under $50,000,000, total	6.43	8.19	6.69	6.05	5.62	5.70
$1,000,000 under $10,000,000	6.50	8.37	6.79	6.23	5.63	5.74
$10,000,000 under $50,000,000	5.84	7.23	6.05	5.51	5.39	5.40
Large foundations						
$50,000,000 or more, total	5.91	6.62	5.34	5.32	5.00	5.08
$50,000,000 under $100,000,000	n.a.	6.68	5.67	5.64	5.11	5.17
$100,000,000 or more	n.a.	6.45	5.00	5.10	5.00	5.02

n.a. - not available
NOTE: Data were available only for the years 1974, 1982, 1985, 1986, and 1987. Data for both the $50,000,000 under $100,000,000 and the $100,000,000 or more categories were not available for 1974.

payout amounts and the ability to give charitably. The largest foundations, accordingly, have realized the largest percent increases in both assets and distributions since ERTA.

Payout Rates

Rates of payout performance have been calculated by dividing the amount of (adjusted) qualifying distributions by the amount of the monthly average of net investment assets. Typically, the payout rate declines as the size of the foundation increases. Smaller foundations tend to give out a larger percentage of their asset base, sometimes to an extent exceeding their return on investments. Larger foundations tend to reinvest proportionately more of their earnings, consequently distributing a smaller proportion to charitable purposes in any given year. The median payout rates for all sizes of foundations either equal or exceed the 5 percent charitable payout requirement. (See Exhibit 1.)

The peak payout rate for the period 1974-87 occurs in 1982. Between 1974-82 it increases from 8.4 percent in 1974 to 9.7 percent in 1982. From 1982-83 the rate declines to 8.2 percent and then, by 1986, further declines to 6.9 percent. The decline after 1982 indicates that after ERTA foundations began to adjust to the new law by paying out a lower percentage of assets. The total median rate then increases slightly to 7.0 percent in 1987.

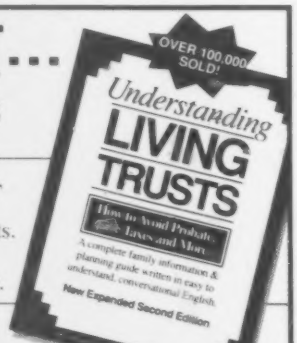
Due, in large part, to poor market conditions and volatility, foundations earned much lower total returns on their investments in 1987. Low returns, coupled with high payout rates, led to the 1 percent decline in 1987 in real foundation fair market value of assets. The end-of-year value of assets declined while foundations actually increased charitable distributions. Foundations did not tend to readjust their payout rates downward in response to the low returns realized in 1987. The 1987 payout rates most likely reflect prior grant-making commitments and high returns realized in 1986.

In 1987, 71 percent of all foundations, particularly the smaller ones, distributed more for charitable purposes than required by the payout law. The smallest group, those foundations with less than $1 million in assets, represents the only group with a payout rate greater than the total median rate for all of the years shown. This occurred, in part, since the amount of investment assets held by small foundations tends to represent a smaller proportion of the value of total assets relative to the larger foundations. Also, small foundations receive a relatively large amount of charitable contributions each year and then often act as a conduit by distributing them within a year. In this manner, the amount of contributions received by these foundations affects the amount of grants that they distribute. For these reasons, the smaller foundations achieve higher payout rates.

In 1987, 35 percent of foundations distributed more than double the required payout amount. A majority of these foundations were in the smaller

FREE
LIVING TRUST...
INSURANCE & CHARITABLE TRUST
MARKETING MATERIALS
With purchase of this 224-page best seller.

These powerful materials, taken from this book, save you time by educating clients *for* you:
✓ Excellent for mailings, seminars and handouts.
✓ Written in clear, conversational English.
✓ Recommend using attorney/corporate trustee.


OVER 100,000 SOLD!
Understanding
LIVING TRUSTS
How to Avoid Probate, Taxes and More
A complete family information & planning guide written in easy to understand, conversational English.
New Expanded Second Edition

CALL NOW! 1-800-728-2665
(7:30 AM - 5:30 PM)
Or send check for $22.95 to:
Schumacher And Company • 2049 Century Park E., #410-T • L.A., CA 90067

EXHIBIT 2

Private Nonoperating Foundation Rates of Total Return on Assets, 1983-1987

Size of fair market value of total assets	Median rates of return[1]			
	1983	1984-85 (2 year span)	1986	1987
	(1)	(2)	(3)	(4)
$1 under $1,000,000	n.a.	n.a.	n.a.	n.a.
$1,000,000 under $10,000,000	6.39%	25.30%	9.02%	1.29%
$10,000,000 under $25,000,000	9.21	31.17	11.21	−0.08
$25,000,000 under $50,000,000	9.47	34.27	11.39	2.33
$50,000,000 under $100,000,000	9.95	38.58	11.75	1.11
$100,000,000 or more	11.69	29.56	13.94	1.36

n.a. - not available
[1]The GNP implicit price deflator was used to adjust for inflation.

size categories. The dollar amount of total distributions exceeded the required amount by 46 percent for all foundations and 291 percent for foundations with under $1 million in assets.

Investing Behavior

Rate of total return. In order to fulfill the 5 percent charitable payout requirement without an erosion of the endowment, a foundation must invest to ensure a rate of total return equal to 5 percent plus the rate of inflation. The rate of total return is a measurement of the total capital appreciation of the endowment of a foundation. It measures the realized income from the assets, investment and otherwise, as well as the unrealized appreciation or depreciation in value. To calculate the rate of total return, data files were matched from consecutive years in order to analyze beginning and ending year fair market value data.[6]

Larger foundations hold a greater proportion of their assets as investment securities. They seem to invest more with the goals of capital appreciation of the endowment and long-term giving. These larger organizations tend to maintain a more diversified portfolio with a greater proportion of lower income yield, higher risk, and higher growth common stock.[7] Since these holdings appreciate faster, higher rates of total return for the larger foundations result. Smaller foundations seem to invest with the intention of distributing relatively large charitable contributions in the present. This group tends to hold lower risk and higher, fixed-income yield assets that do not appreciate nearly as rapidly, resulting in lower relative returns.

Larger foundations distribute proportionately less than smaller foundations, but the rate of return tends to increase as the size of the foundation increases. Foundations realized high rates of total return from 1983-86. Market conditions during these years proved very favorable to investors. In 1983 the largest foundations, those with $100 million and more in assets, earned 11.7 percent after inflation, and in 1986, 13.9 percent. Since 1984 data were not sampled, two-year median figures for 1984-85 were calculated. These indicate that foundations also achieved high returns during the two-year span, the largest group earned 29.6 percent. Even after accounting for the relatively low inflation from 1983-86, all of these size groups earned a rate of total return on assets well above the 5 percent payout requirement. (See Exhibit 2.[8])

The 1987 data, however, show different investment results. Foundations

FIND MISSING HEIRS
A BETTER WAY...

- We guarantee a successful result . . . OR NO CHARGE.
- Search fees are reasonable based on data available . . . NOT THE SIZE OF THE ESTATE!
- We recommend that our clients obtain court approval of our fees . . . before any commitment is made by the estate!
- Completed reports include all necessary documentation to support the identities of the persons located.

For a no obligation fee quotation, references and more information on how to find missing heirs a better way, please call

TOLL FREE 1-800-663-2255

INTERNATIONAL GENEALOGICAL SEARCH INC

Serving the legal profession and trust institutions a better way since 1967.

earned well under the minimum desired 5 percent rate of return. For instance, the largest foundations earned only 1.4 percent after inflation. This resulted, in large part, from the sharp stock market decline in Oct. 1987. Although foundations obviously can earn positive returns after accounting for charitable distributions and inflation, fluctuations in the stock market can create negative effects as well.

Higher Returns

During the years 1983-86, foundations realized substantially higher total returns than charitable payout rates. This contributed to the growth of aggregate foundation assets. However, in 1987, foundations with $1 million or more in assets paid out more to charitable purposes than what they earned as total returns on investments. This led to the decline of aggregate foundation asset value from 1986-87. It will prove interesting to evaluate 1988 data to ascertain whether or not foundations adjusted their payout percentages downward in response to the unusually low returns in 1987.

Income yield. While the rate of total return measures the change in the value of the entire endowment, the income yield measures only the realized investment income earned by a foundation. Income yields were calculated in two different ways: 1) "net investment income" divided by fair market value of end-of-year investment assets, referred to as the "NII" yield; and 2) "adjusted net income" divided by the same investment assets, referred to as the "ANI" yield. NII includes long-term capital gains whereas ANI does not. (See Exhibits 3 and 4.)

Smaller foundations in the sample earned higher ANI yields than the larger foundations, although the larger foundations earned higher NII yields for the same years. Since the NII yield includes long-term capital gains, this difference between the NII and the ANI yields supports the notion that smaller foundations hold a greater proportion of high fixed income yield assets and that the larger foundations earn the largest percentage of their NII from realized long-term capital gains. The increases in NII yields after 1982 may indicate that foundations, especially the medium and large size groups, began to adjust their investment styles following the enactment of ERTA. Prior to ERTA, high income-producing investments may have caused higher required distributable amounts.

NII Yields Lower

A comparison of the NII yields with the rates of total return shows that the NII yields tended to be less than the total returns from 1983-86. Since the rate of total return includes unrealized gains and the NII does not, the higher total returns indicate unrealized growth in assets. However, in 1987, the year of the stock market decline and low total returns, the NII yields, although they did drop from 1986, actually exceeded the total returns for that year. This shows the unrealized loss that occurred in 1987.

The value of assets increased by 56 percent, and the value of charitable distributions increased by 38 percent from 1982-87. Do foundation investment and payout practices since the ERTA explain these changes? The relatively low inflation and interest rates in the 1983-87 period and a market that yielded relatively high returns through 1986 no

EXHIBIT 3

Net Investment Income Yields, 1974-87

SIZE OF (FMV) ASSETS	INCOME YIELD (using Net Investment Income (NII)) (Median percentages) (1982 constant dollars) 1974[1]	1982	1983	1985	1986	1987
Total	−3.37	2.31	4.47	4.78	4.74	3.89
Small Foundations						
$1 under $100K	−3.74	2.27	3.90	4.50	3.59	3.05
$100,000 under $1M	−3.05	2.43	4.38	4.95	5.07	4.06
Medium Foundations						
$1,000,000 under $10M	−2.78	2.66	5.00	5.71	5.95	4.74
$10,000,000 under $50M	−2.27	1.52	5.48	6.00	8.25	5.99
Large Foundations						
$50,000,000 and up	−2.46	1.67	5.53	6.84	7.70	5.63
$100,000,000 and up	—	.58	5.06	6.56	7.08	5.53

K = thousands of dollars
M = millions of dollars

(1) The calculation for 1974 divides net investment income by book value of assets. The use of fair market value data, unavailable for 1974, would have lowered the rates from those calculated and most likely affected the differences between the small and large foundations.

EXHIBIT 4

Adjusted Net Income Yields, 1974-83

SIZE OF (FMV) ASSETS	INCOME YIELD (using Adjusted Net Income (ANI)) (Median percentages) (1982 constant dollars) 1974[1]	1982	1983
Total	−3.52	1.72	3.47
Small Foundations			
$1 under $100K	−3.91	1.92	3.29
$100,000 under $1M	−3.08	1.86	3.70
Medium Foundations			
$1,000,000 under $10M	−3.03	1.38	3.24
$10,000,000 under $50M	−2.54	.73	2.66
Large Foundations			
$50,000,000 and up	−2.42	.35	2.37
$100,000,000 and up	—	.09	2.21

K = thousands of dollars
M = millions of dollars

(1) The calculation for 1974 divides net investment income by book value of assets. The use of fair market value data, unavailable for 1974, would have both lowered the rates from those calculated and most likely affected the differences between the small and large foundations.
Note: This yield was not calculated for the years 1985, '86, and '87 since the necessary 990-PF line items in the years following 1983 were not edited.

doubt helped to impact the growth of foundation assets. It seems that ERTA also has impacted the growth of foundation assets and distributions. This can be inferred from the relatively high foundation growth as compared to growth in the GNP, the effects of the change in the payout requirement, discussed previously, and differences in the growth rates of different sizes of foundations.

Fair market value of assets. From 1979-86, total foundation assets increased, mostly at an increasing rate, by 65 percent. The majority of the growth occurred from 1982-86. Assets then declined by 1 percent from 1986-87. (See Exhibit 5.)

Assets tend to increase at a faster rate in the larger foundations. Since the larger foundations tend to earn relatively high rates of total return and pay out relatively low percentages of assets, not surprisingly, the assets of the larger foundations increased at a faster rate than those of the smaller foundations. From 1982-87 those foundations holding $100 million and more in assets increased by 85 percent in assets, the largest increase of all of the size groups. The smallest foundations, those under $1 million, increased by 29 percent in assets during the same years.

Charitable distributions. Aggregate charitable distributions have also grown considerably since ERTA. The totals show that qualifying distributions grew steadily by 45 percent from 1979-87, after showing a 5 percent decline from 1974-79. After ERTA, the smallest group (under $1 million in assets) is the only one that paid out qualifying distributions at a faster rate than the growth in assets. This group experienced larger percentage increases in charitable distributions from 1982-87 than all of the other groups, with the exception of the largest. The smallest group realized a 46 percent increase in distributions from 1982-87, compared to its 29 percent gain in assets during the same time. (See Exhibit 6.)

For foundations with assets equal to or greater than $1 million, assets increased at a faster rate than distributions from 1982-87. The largest group ($100 million and more in assets) realized a 79 percent increase in distributions; an increase substantially greater than the smallest group, a sizeable improvement over its charitable giving before ERTA, and almost equal in size to its 85 percent increase in assets.

Between 1979-82, the largest foundations had distributions which increased faster than assets, while the smallest foundations had assets which decreased by less than distributions. However, after ERTA these trends changed and all foundations were able to increase both assets and distributions. The largest foundations, although they had the lowest payout rates, through significant growth in endowment size were also able to realize the greatest percent increases in charitable distributions from 1982-87.

Effects of a market decline, 1987. Data for 1986-87 indicate different results from the entire 1982-87 period. Even after achieving poor investment results in 1987, all of the size groups except the smallest paid out charitable distributions at a faster rate than the change in the value of assets. However, during this time the smallest foundations actually increased assets more than distributions. If the 1987 stock market crash affected the behavior of all foundations, it is also true that larger foundations were better able to withstand

Heart Disease Research Foundation
WILLS • BEQUESTS • EDUCATION
50 COURT STREET, BROOKLYN, NEW YORK 11201 Phone: (718) 649-6210

The Heart Disease Research Foundation, founded in 1962, is a charitable and scientific nonprofit, tax-exempt organization registered with the U.S. Treasury Department as described in Section 501(c)(3) of the Internal Revenue Code.

GIFT OPPORTUNITIES: Fifty percent of the Heart Disease Research Foundation's income comes from wills and bequests. Donors can remember the HDRF through a will, a living trust, stocks, bonds, a life insurance policy, real estate, cash or any tangible assets. All donations received will be utilized to further resarch, for public education, and for the prevention of cardiovascular diseases. All donations to the HDRF are tax deductible from federal income taxes. Our ID# is 11-6036278.

MEMORIALS: The Foundation maintains a Memorial Program, whereby a beautiful Memorial Scroll is mailed to the family of a deceased person informing them that a generous donation to heart research was made by the donor. The donor can be an individual, group, corporation, staff, etc. We need your help and support.

LEGAL COUNSEL: Gulotta & Stein, 1539 Franklin Avenue, Mineola, New York 11501, (516) 741-4600.

The workhorse of your office . . .

PG Calc has hard-working charitable trust software solutions for lawyers, bankers, and trust officers.

- **Planned gift calculations**
- **Gift annuity and remainder trust administration** *with automated check, receipt, and 1099-R/W-2P production.*
- **Pooled income fund administration** *with automated check, receipt, and K-1 production.*

It's smart to work hard for your charitable clients. Now your institution can work harder than ever with PG Calc's software solutions.

Call or write for more information or free demo software for IBM compatibles.

PG CALC

Mary Pforzheimer
Vice President
PG Calc Incorporated
129 Mt. Auburn Street
Cambridge, MA 02138
617-497-4970

EXHIBIT 5

Fair Market Value (FMV) of Private Nonoperating Foundation Assets, 1979-1987

SIZE OF (FMV) ASSETS	FAIR MARKET VALUE OF ASSETS[1] (Amounts and percent changes)					
	1979	1982	1983	1985	1986	1987
Total: (Amount)	53,994,833	56,203,718	61,143,424	78,003,388	88,841,283	87,897,872
(Percent change from prior year listed)	—	+ 4.1	+ 8.8	+ 27.6	+ 13.9	− 1.1
$1 under $100K	476,081	330,972	336,365	359,321	359,180	355,636
		− 30.5	+ 1.6	+ 6.8	− .0	− 1.0
$100,000 under $1M	3,699,261	3,071,767	3,396,108	3,375,908	3,814,486	4,027,976
		− 17.0	+ 10.6	− .6	+ 13.0	+ 5.6
$1 under $1M	4,175,342	3,402,739	3,732,473	3,735,229	4,173,666	4,383,611
		− 18.5	+ 9.7	+ .1	+ 11.7	+ 5.0
$1,000,000 under $10M	11,097,800	10,527,069	11,718,911	12,422,991	14,424,320	13,560,055
		− 5.1	+ 11.3	+ 6.0	+ 16.1	− 6.0
$10,000,000 under $50M	11,727,444	12,156,788	12,651,431	15,175,491	15,956,840	15,944,998
		+ 3.7	+ 4.1	+ 20.0	+ 5.1	− .1
$50,000,000 and up	26,994,247	30,117,121	33,040,609	46,669,677	54,286,456	54,009,209
		+ 11.6	+ 9.7	+ 41.2	+ 16.3	− .5
$100,000,000 and up	—	24,779,239	27,733,991	38,611,884	45,828,676	45,857,255
			+ 11.9	+ 39.2	+ 18.7	+ .1

K = thousands of dollars
M = millions of dollars

(1) a) Dollar amounts are in thousands (000's).
b) Dollar amounts are constant 1982 dollars obtained by using the implicit price deflator.

EXHIBIT 6

Private Nonoperating Foundation Qualifying Distributions, 1974-1987

SIZE OF (FMV) ASSETS	QUALIFYING DISTRIBUTIONS[1] (Amounts and percent changes)						
	1974	1979[2]	1982	1983	1985	1986	1987
Total: (Amount)[3]	4,316,233	4,113,587	4,553,587	4,653,226	5,170,329	5,945,893	6,262,171
(Percent change from prior year listed)		− 4.7	+ 10.7	+ 2.2	+ 11.1	+ 15.0	+ 5.3
$1 under $100K	263,543	227,687	96,379	275,726	141,151	329,234	201,641
		− 13.6	− 57.7	+ 186.1	− 48.8	+ 133.2	− 38.8
$100,000 under $1M	605,130	539,840	455,690	525,426	507,821	463,713	601,819
		+ 10.8	− 15.6	+ 15.3	− 3.4	− 8.7	+ 29.8
$1 under $1M	868,673	767,527	552,069	801,152	648,972	792,947	803,460
		− 11.6	− 28.1	+ 45.1	− 19.0	+ 22.2	+ 1.3
$1,000,000 under $10M	970,785	1,117,038	1,204,782	1,151,232	1,017,732	1,213,634	1,290,379
		+ 15.1	+ 7.9	− 4.5	− 11.6	+ 19.2	+ 6.3
$10,000,000 under $50M	627,389	1,009,852	998,153	972,526	1,068,060	1,193,878	1,256,847
		+ 61.0	− 1.2	− 2.6	+ 9.8	+ 11.8	+ 5.3
$50,000,000 and up	1,714,169	1,450,856	1,792,087	1,727,731	2,331,142	2,630,215	2,875,835
		− 15.4	+ 23.5	− 3.6	+ 34.9	+ 12.8	+ 9.3
$100,000,000 and up	—	—	1,334,123	1,344,882	1,787,323	2,125,602	2,382,142
				+ .8	+ 32.9	+ 18.9	+ 12.1

K = thousands of dollars
M = millions of dollars

(1) a) Dollar amounts are in thousands (000's).
b) Dollar amounts are constant 1982 dollars obtained by using the implicit price deflator.
(2) The 1979 total represents the true total for nonoperating foundations. However, the amounts for each of the sub-totals in 1979 represent the amount for all foundations (nonoperating and operating). This is due to limitations in the 1979 data.
(3) The sum of the sub-totals does not equal the listed total for each year since this table does not reflect the sub-group, "Assets Zero or Unreported."

market swings and to increase long-run distributions.

The primary function of private foundations is charitable distribution. One of the original goals of ERTA was to increase the long-run amount of foundation charitable distributions. The results following this change in the payout requirement indicate that the legislation was successful in this respect.

Foundation charitable distributions did increase after accounting for inflation. In a very favorable market environment between 1983-86, foundations realized rates of total return that easily allowed them to both meet the payout requirement and increase the value of their assets. In response to ERTA, the largest foundations adjusted their payout rates downward and re-invested more. However, from 1982-87 they increased charitable distributions at the fastest rate despite relatively low payout rates. Their endowments appreciated rapidly due to large unrealized gains. This growth in assets allowed these foundations to increase distributions at the fastest rate from 1982-87. The smallest foundations did not notably readjust their payout rates downward, although they did increase both assets and distributions. In fact, they increased distributions at a faster rate than assets.

In light of the large social welfare budget cuts of the last decade, private philanthropic grants have become an increasingly important source of social funding in the United States.

It appears that the investment returns of smaller foundations determine, at least in part, the amount of charitable dollars distributed in the following year. For instance, the smallest foundations may have responded to relatively low income yields in 1982 by paying out distributions at lower rates in 1983. Additionally, the smaller foundations earn a relatively large proportion of total revenue as contributions. They rely, in large part, on these contributions to help fund charitable giving. For example, the decline in contributions received in 1987 may also have affected charitable giving in that year. These foundations tend to distribute proportionately large amounts in the present, based on contributions, investment returns, and income yields.

Conversely, the goal of a more predetermined payout policy appears to drive the operations and investment policies of the larger foundations. They are better able to manage their investments and distribute dollars in such a way as to promote long-run growth of the endowment. A growing endowment will fund charitable grants at the same or at an increased value in the future. These foundations tend to distribute charitable dollars at relatively consistent payout rates irrespective of changing rates of return. For example, the larger foundations continued to distribute an increased amount in 1987 despite low rates of return and declining assets in that year. These foundations tend to operate with a more planned and structured payout policy.

Data from 1988 will provide additional insight into the interplay of size, behavior, and investment and distribution patterns. Different foundations assume different roles and behave accordingly. The disparity between 1987 and the other years studied sheds light on the nature of the decision-making processes of foundations. The question arises: does the rate of total return (and possibly the NII yield) in one year affect the payout rate of the following year? In other words, do certain foundations respond to low returns with low payout rates or to high returns with high payout rates? And, do these patterns differ with the size of the foundation?

In light of the large social welfare budget cuts of the last decade, private philanthropic grants have become an increasingly important source of social funding in the United States. These data can help to better assess the long-run effects of policy on the investment and payout behavior of private foundations. □

The author would like to extend her thanks to the many individuals from the

McKay Hochman Co., Inc.

1991 CLASS SCHEDULE

RETIREMENT TRAINING PROGRAMS
Concurrent 5-day BASIC and ADVANCED Courses

JULY 22-26, 1991
Denver, CO

OCTOBER 21-25, 1991
Secaucus, NJ

JANUARY 13-17, 1992
Lake Buena Vista, FL

RETIREMENT PLANS SEMINARS
Concurrent 2-day Prototype Plans BASIC and ADVANCED Courses

JULY 8-9, 1991
Cherry Hill, NJ

AUGUST 19-20, 1991
Newton, MA

SEPTEMBER 5-6, 1991
Cincinnati, OH

OCTOBER 9-10, 1991
Charlotte, NC

NOVEMBER 18-19, 1991
St. Louis, MO

INSIGHTS'91
2-day Graduate ADVANCED Courses

AUGUST 5-6, 1991
St. Louis, Mo

OCTOBER 7-8, 1991
Nashville, TN

NOVEMBER 7-8, 1991
Newton, MA

DECEMBER 5-6, 1991
San Francisco, CA

CASH OR DEFERRED AND SAVINGS PLANS SEMINARS
One Day 401(K)

SEPTEMBER 20, 1991
Princeton, NJ

OCTOBER 29, 1991
Chicago, IL

FOR FURTHER INFORMATION:
JULIE DELLAPI OR CAROL STERLING • 201/492-1880
P.O. BOX 196, BUTLER, NJ 07405-0196

Statistics of Income Division who made important contributions to this paper and provided helpful suggestions. Among these are Dan Skelly, who provided very helpful insight and support, and also Peggy Riley, Mike Alexander, Tom Petska, Jim Hobbs, Jim Harte, Steven Libster, Perry Dias, Adrianne Bell, Nat Shaifer, and, finally, a special thanks to Jeff Rosenfeld, a consultant with the IRS. Questions and comments regarding this research are welcome. The author can be reached at the Internal Revenue Service, R:S:F, 1111 Constitution Avenue, N.W. Washington, DC 20224.

The data for this analysis were drawn from stratified samples selected in 1974, 1979, 1982, 1983, 1985, 1986, and 1987 by the Statistics of Income Division of the Internal Revenue Service.

FOOTNOTES

1. Non-operating foundations primarily distribute grants to individuals and other nonprofit groups, whereas operating foundations typically operate their own charitable programs. Since tax law requires that only non-operating foundations fulfill a charitable distribution requirement, this analysis focuses only on the non-operating type.
2. All references to assets are stated at fair market value unless otherwise indicated.
3. The Foundation Directory, 11th edition, Loren Renz, editor, The Foundation Center, New York, 1987, p.xx.
4. The GNP implicit price deflator was used in all applicable instances. Please refer to the Economic Report of the President, U.S. Government Printing Office, Washington, DC, February, 1990, Table C-3.
5. Salamon, Lester M. and Voytek, Kenneth P., *Managing Foundation Assets: An Analysis of Foundation Investment and Payout Procedures and Performance*, The Council on Foundations, 1989.
6. The formula is taken from a study by Salamon and Voytek. See: *Ibid.*, p.32.
7. Salamon and Voytek, *Ibid.*
8. Due to the rates of matching specific returns in the sample by the identifying number (EIN), the rate of total return could only be calculated for those foundations with $1 million and more in assets.

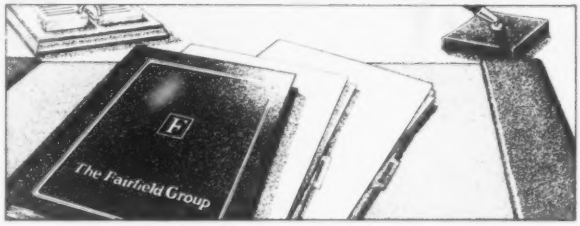
ADDITIONAL REFERENCE

Reilly, Raymond and Skudden, Donald H., *Private Foundations: The Payout Requirement and its Effect on Investment and Spending Policies*, Univ. Of Michigan Grad. School of Bus. Adm., 1981.

Alicia L. Meckstroth is an economist with the Statistics of Income Division of the Internal Revenue Service. She co-manages a statistical program for private foundation and charitable trust data. Slightly different versions of her article were recently published by both the American Statistical Assocation (1990) and the Independent Sector Research Forum (1991).

When it comes to Proprietary Mutual Funds for banks...

We Wrote the Book!



If you're a trust banker with over $2 billion in assets you can receive this valuable report... *absolutely free* and without obligation. It's prepared specifically for your bank (you'll have to supply some basic information) and packed with ideas for capturing your share of the growing mutual fund market.

How much additional income can proprietary mutual funds provide? Concerned about legal and regulatory issues? What start-up costs can you expect? How do you select an administrator/distributor? What about choosing legal and accounting vendors?

The answers to these questions and many more are covered in your personal copy of Fairfield's *STRATEGY FOR PROPRIETARY MUTUAL FUNDS*, an exclusive report written for you by the Fairfield Group, Inc., pioneers in the development of proprietary mutual funds for banks.

The cost? *Free* to qualified banks.

For your copy, call Frank Bruzda, Chairman, The Fairfield Group.

1-800-441-3885.

F **The Fairfield Group, Inc.**
200 Gibraltar Road
Horsham, PA 19044

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, Pgs:2, 4, 10, 14, 16,

18, 20